

UNIT 2

Business Organization and Management



5 Business Organization

6 Entrepreneurship and Small Business Management

7 Management and Leadership

8 Human Resources, Culture, and Diversity

9 Career Planning and Development



business outside the box

From Lawyer to Learning Expert

Trained as a lawyer, Gene Wade realized the importance of education. Today, his emphasis is in the classroom instead of the courtroom. Wade is the head of Platform Learning, a tutoring service that assists more than 50,000 underprivileged students each year. The company, based in New York City, makes use of “Learn-to-Succeed” tutoring. The program brings together parents, schools, community organizations,

and local educators. These groups combine to provide appropriate motivation and teaching materials for individual student needs.

Wade has had a strong influence on the lives of many young people who come from difficult situations. Wade was raised in a Boston housing project laced with gang activity. He was an average student who was helped by a community youth leadership program. After achieving success as a lawyer,

Wade was drawn to helping students. Wade’s Platform Learning organization tutors students in 18 states to “Believe... Achieve... Succeed.” The young people gain confidence, improve academic skills, and gain a foundation for lifelong learning.

Think Critically

What are needs in your community that could result in a business for improving people’s lives?

Comfortable and Profitable

A product you create for yourself can result in a company with more than \$100 million in sales. That’s exactly what happened for Karen Neuburger. She was a stay-at-home mom who wanted to avoid being part of a major corporation. A former fashion industry executive, Karen created comfortable, oversized pajamas for herself to wear around the house. She then realized others might also want this product. Now, Karen is CEO of Karen Neuburger, a company that specializes in pajamas,

pillows, socks, and other comfort products. Her products are sold in more than 10,000 outlets around the world.

Karen started her career in the fashion and clothing business as a buyer at Maurice’s, a small women’s clothing store in Minnesota. Then, she became a merchandise manager as the company grew into a 700-store chain. After moving to the San Francisco area, she began her pajama business. She designed a pair for herself based on her

husband’s pajamas. Karen sewed a pair of ultra soft, comfortable, fun pj’s to wear around the house. Soon her friends at Macy’s and Nordstrom were asking for the product. Karen maintains strong enthusiasm for her products. This helps convince others to carry them in their stores.

Think Critically

What are your ideas for a product or service that could be the basis for a start-up company?

CHAPTER 5

Business Organization

5-1 Business in the U.S. Economy

5-2 Forms of Business Ownership

5-3 Organizational Structure for Businesses



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Planning a Career in...

CORPORATE LEADERSHIP



Rising to the top of one of the world's largest corporations seems like the dream job in business. The chief executive officer (CEO) of a corporation may make several million dollars a year in salary and bonuses, have a large office with dozens of support staff, travel worldwide on a corporate jet, and make daily decisions that directly influence the success of the company. Corporate executives also work long hours and face the competing expectations of stockholders, the board of directors, employees, and customers. While they receive many perks and benefits, their success or failure may be determined more by economic conditions, government regulation, and the stock market than their own decisions and abilities.

A corporation's goals and policies are established by the top executives. The executives meet frequently to set direction, review company performance, and establish policy. They then delegate work to the organization's managers and employees. They know that they are ultimately responsible and accountable for the performance of the company.

Employment Outlook

- There are about 3 million top executive positions in business today, with the greatest opportunities in the fastest growing industries including service businesses, communications, technology, and health care.
- Corporations are constantly looking for skilled and creative executives to lead their businesses. However, most top executive positions are filled by people who have many years of experience in the industry and a successful management track record.

Related Job Titles

- Chief Executive Officer
- Chief Operating Officer
- President

Needed Skills

- Corporate executives have varied backgrounds, but often are skilled in finance, management, and business operations.
- Executives must study large amounts of information, listen carefully to the ideas and opinions of others, and juggle many activities.
- They must be willing to take risks, handle stress, and be decisive.
- Executives need highly developed public relations and speaking skills as well as the ability to interact effectively with individuals and groups in high pressure situations.

What's it like to work as a... Corporate Executive

The schedule of a CEO is packed most days. It may start with an hour of reading before attending a conference with the heads of other companies and government officials. Lunch is with the management team to review the company's financial performance, followed by a press conference. Two hours are spent on the telephone talking to a senator about a telecommunications law, discussing labor contract negotiations with the vice president of human resources, and speaking with a manufacturer in Japan about a proposed joint venture. After a workout at the executive gym and a quick dinner, it is off to the airport for a flight to Brazil to oversee the opening of a new manufacturing facility. The flight will be spent studying reports, completing correspondence, and watching a videotaped briefing on Brazil's economy.



What about you? How would you prepare for the stress of being a corporate executive? Do you believe that the work justifies the high salary and benefits?

5-1

Business in the U.S. Economy



Goals

Describe the changing status of U.S. employment.

Discuss the role of business in the U.S. economy.

Describe three major types of businesses.

Key Terms

contingent worker

intermediary

service business

Focus on Real Life

Sami Rehm loves digital photography. Last year she bought a professional-quality camera with several lenses. She has become very good at using photo editing software. While Sami's photography is currently a hobby, she has framed and sold several of her photographs at local art shows.

Sami has started to wonder if she might be able to use her interest and skills in photography for a career. She knows newspapers, magazines, advertising agencies, and other businesses use photographers. She also knows that people have their own photography studios.

Sami expressed her feelings to her mother. "I know I love photography now. Would I like it as much if I did it every day as a job? I wonder what training and skill a business expects when they hire a photographer?"

main idea

Describe the changing status of U.S. employment.

THE CHANGING U.S. JOB MARKET

As the 21st century begins, there are striking changes in employment and careers in the United States. The beginning of the 21st century saw many new career prospects in the dot-com world. It also saw the decline of some traditionally important jobs in manufacturing and agriculture.

Employment Data

From 1996 to 2006 total employment grew by nearly 14 percent. In 2007, 144 million people held jobs. That number is projected to reach 165 million by 2014, an increase of almost 13 percent.

The term "baby boomers" refers to the large number of people born between 1946 and 1964. They have dominated the labor market since they began working in the 1960s. They will continue to do so until they begin retiring in the 2010s. The average age of U.S. workers in 2020 will be

over 50. A mini-boom of younger workers will cause the 20- to 30-year-old age group to grow faster than the overall labor force for the first time in 25 years. Other groups that will go through higher employment growth rates are Asian-, Hispanic-, and African-American workers. Currently, white non-Hispanic workers make



How will the demographics of U.S. workers change over the next decade?

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up 70 percent of the labor force. That number will drop to 66 percent by 2014. Over the last 50 years, one of the most striking trends in employment has been the participation of women. In the early 1960s, 35 percent of women were working outside the home. The number of working women doubled by 2000. By 2014 nearly one half of all jobs (47 percent) in the United States will be held by women.

Pressures on Employees

At one time, it was thought that technology would allow people to work fewer hours. This has not occurred. Economic stress has led to downsizing of the number of people employed by many companies. Companies streamlined production and implemented other cost-cutting procedures. Businesses required employees to take on new tasks and work extra hours. Some full-time jobs were reduced to part-time. Wage rates decreased. Many people were forced to find second jobs to meet their economic needs.

A recent survey reported that 7 of 10 parents felt they were not able to spend enough time with their children. At the same time, children see their parents changing jobs, taking on more responsibility, completing additional education to improve career opportunities, and making important decisions to balance work and family life. Those experiences will likely shape the career and family decisions of the next generation.

Economic pressures also resulted in the increased use of contingent workers. A **contingent worker** is one who has no explicit or implicit contract for long-term employment. About 5 percent of the U.S. workforce (nearly 6 million people) is made up of contingent workers. Some estimates project that number will double in 10 years. Some people take contingent work because they cannot find permanent employment. Others choose contingent work because they like the flexibility it offers.

NETBookmark

The U.S. Bureau of Labor Statistics collects and reports detailed information on the status of the work force nationwide. Access the web site shown below and click on the link for Chapter 5. Locate the Economic and Employment Projections. Identify and study tables that describe how employment is projected to change for people of your age and race and for an industry in which you might be interested in working. How can you use that information to help you make education and career decisions in the next several years?

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List several groups that will increase as a percentage of the total U.S. workforce in the next decade.

BUSINESS AND THE ECONOMY

Businesses make the goods and services you use each day. That includes the products and services used by other businesses as well as those needed by individual consumers. In 2002, all businesses worldwide produced more than \$40 trillion of goods and services. U.S. businesses were responsible for almost 29 percent of that production. Nearly 24 million full- and part-time businesses produce those goods and services.

Size of Businesses

Most U.S. businesses are quite small. The largest number, nearly 19.5 million businesses, have no employees other than the owner. About 4.5 million companies employ less than 20 people. Just over 26,000 employ 20–100 people. About 107,000 large U.S. businesses employ 100 or more workers. Of those large companies, 890 employ more than 10,000 people. Figure 5-1 shows the distribution of U.S. businesses by employment size.

main idea

Discuss the role of business in the U.S. economy.

Roles of Business

Businesses play several key roles in the U.S. economy. They provide employment for millions of people. Employee wages are used to purchase goods and services. Profits earned by businesses are used to compensate owners and investors. Most businesses pay taxes to federal, state, and local governments. Governments spend these taxes to provide services such as clean water, well-maintained streets, police and fire protection, hospitals, and schools.

The most important role of businesses is to make and distribute products and services needed by consumers, government, and other businesses. Businesses make the clothing, movies, music, food, and other items you use every day.

Impact on a Community

A business can have an important impact on the community in which it operates. When a new business opens, it pays wages to its workers. It also buys goods and services from other businesses in the area. This money has not been in the community before. Employees and businesses in turn spend much of the money to purchase things they need.

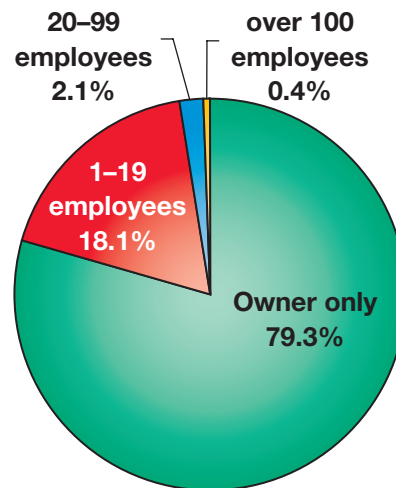
The money spent may result in the need for more employees in the community. They will need housing, automobiles, food, and entertainment. They will pay taxes to the community to support needed community services.

When a large business opens in an area, other businesses will often locate there to support the larger business. Small businesses may be started to meet the needs of the residents and other businesses. Successful businesses contribute to more jobs, more income, and a thriving economy in the communities where they operate.

Business Activities

Businesses may be large or small, simple or complex. A business might operate in only one community. It may have many

Percent of Businesses by Employee Size



Source: U.S. Census Bureau

FIGURE 5-1

Would you prefer to work in a large or small business? Explain your answer.

locations across the nation or around the world. Although there are many types and sizes of businesses, all firms perform six basic activities.

Generating Ideas A business begins with a new idea. Someone must have an idea for a new product or service or a new way to carry out a business process. A business must continue to improve and develop new ideas in order to remain successful. Businesses must remain competitive with other firms that sell similar goods and services. Many companies have a research and development department that works full-time to discover new product, service, and operating ideas.

Raising Capital Businesses need financial resources to operate. They use these financial resources to buy buildings and equipment, hire and train workers, and complete day-to-day business operations. A large amount of capital is needed to start most businesses. Some capital comes from owners. Most is obtained through loans from financial institutions or from investors.

A business needs more capital as it develops and grows. Some of that capital

will come from reinvested profits. A business will need to continue to work with banks and attract additional investors to have enough money for ongoing operations.

Employing and Training Personnel

Businesses need human resources. Even businesses that begin with no employees other than the owner will add part- and full-time employees as they grow. Businesses have procedures for recruiting, hiring, and training employees. They pay wages, benefits, and employment taxes. New employees receive training in order to perform their jobs correctly. Further training will be necessary when procedures change, new tasks are added, or technology is introduced.

Work as a Team

If you own a business, would you rather raise capital by obtaining a loan from a financial institution or by offering partial ownership to other investors? As a team, create a list of advantages and disadvantages of each method of raising capital.



Buying Goods and Services All businesses buy goods and services. Businesses use many of the purchases for their own operations. Other purchases are resold. Manufacturers of automobiles must buy steel, aluminum, and plastics to be used to form the frame and body of new cars. They will also purchase tires, batteries, airbags, and air conditioning units that will be installed on the production line.



Expanding E-Government

Computers have a major impact on the way government operates. Offering services online has become the goal of most agencies. Rather than going to a government office to pick up a form, apply for a license, or make a payment, people can complete many of these activities online.

In a study of the development of e-government services around the world, the United Nations has identified the following five stages:

Emerging Official government online presence established

Enhanced Number of sites increase and become more interesting and useful

Interactive Users can download forms, e-mail officials, and interact through the Web

Transactional Users can complete transactions and pay for services online

Seamless Full integration of information and services across agencies—one-stop service

By 2003, the U.S. government had 22,000 web sites with more than 186 million web pages. Annual spending by the federal government for information technology services is more than \$50 billion. More than 60 percent of all Internet users interact with the federal government through its web sites. Moving government services to the Internet may result in more than 1 billion dollars of savings each year.

Two major barriers stand in the way of the development of e-government. Most important is privacy and security of the personal information contained in government records and submitted by citizens. That information includes

tax records, medical histories, and personal information such as driver's license and social security numbers. The second barrier is the unequal access to technology. Thousands of citizens do not have secure high-speed Internet connections. Others do not have the literacy or computer skills to use online government services.

Think Critically

1. Search the Web and identify government services provided by your local and state governments. What stage of development is demonstrated by the web sites you visited?
2. What can governments do to reduce the barriers of privacy, security, and citizen access to e-government services?

A retailer buys an assortment of products to sell to customers. It must also buy the display equipment, computers, and cleaning supplies used to operate the business. Businesses purchase an array of services from other companies. These include advertising, legal and accounting services, lawn care and building maintenance, and security.

Marketing Goods and Services

Marketing refers to the activities directed at providing the goods and services wanted by a business's customers. Without marketing, even the best products and services may remain unsold. Businesses need to understand and perform many marketing activities. They must satisfy customers who usually can choose to buy from competitors offering similar products and services.

Maintaining Business Records

All businesses must have some type of record-keeping system. Owners and managers need records to track performance and make decisions. Customers need information about orders and payments. Businesses are required by government to keep records and submit information.

Today, technology is available to make record keeping easy and accurate. With computer technology, business owners and employees can quickly access information needed to understand business performance and solve problems.

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What are the six basic activities completed by all businesses?

main idea

Describe three major types of businesses.

TYPES OF BUSINESSES

You, your family, and your friends use a variety of businesses to buy the things you want and need. You recognize other businesses but never use them. And, you don't even know about many others. There are three major categories—producers, intermediaries, and service businesses.

Producers

Producers create the products and services used by individuals and other businesses. They are responsible for using resources to make something that is needed by others. A business that takes resources from nature for direct consumption or for use in developing other products is an *extractor*. Extractors pump oil, mine coal, or cut timber. *Farmers* cultivate land and use other natural resources to grow crops and raise livestock for consumption. *Manufacturers* get supplies from other producers and convert them into products. They sell their products to consumers and other businesses.

Business activities start with producers. A builder obtains lumber, cement, shingles, carpet, and paint to construct a house, factory, or office building. A cereal manufacturer buys wheat and oats,



How does marketing affect a consumer's decision to purchase a product?

sugar, and dried fruit as well as cardboard, glue, and ink to process and package your favorite breakfast food.

Intermediaries

Intermediaries are businesses involved in selling the goods and services of producers to consumers and other businesses. The most common types of intermediaries are retailers and wholesalers. Many other businesses focus on one or a few activities that assist in distributing and selling products and services. Specialized intermediaries include transportation companies, advertising agencies, storage centers, sales offices, and data processing centers.

Service Businesses

Many businesses do not make products. They offer something that is intangible, meaning it has no physical qualities. A **service business** carries out activities that are consumed by its customers. It does not offer products for sale. Service businesses include dentists, physicians, and lawyers as

well as pet sitters, painters, and furniture movers. New types of service businesses are Internet service providers, web designers, and online travel agents. Businesses as well as final consumers use services. A business might contact an international trade specialist to help it set up a sale to a new customer in Africa. A communications firm could design and install a new phone system for large telemarketing businesses.

Service businesses are the fastest growing part of the economy. More than 60 percent of all U.S. employment is now in service-producing businesses. While you often hear about low-pay and low-skill service jobs, there are many new businesses offering professional and technical services requiring highly educated employees.

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How does a manufacturer differ from an extractor?

5-1

Assessment

Xtra!
Study Tools

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Key Concepts

Determine the best answer.

1. The largest number of U.S. businesses employ
 - a. more than 100 people
 - b. between 50 and 100 people
 - c. between 10 and 20 people
 - d. no employees other than the owner
2. Which of the following is *not* one of the common activities of all businesses?
 - a. producing goods and services
 - b. employing and training personnel
 - c. marketing goods and services
 - d. maintaining business records
3. A retailer is an example of a(n)
 - a. extractor
 - b. producer
 - c. intermediary
 - d. service business

Make Academic Connections

4. **Math** If 71 percent of all people working in the United States are employed in service occupations, how many people held service jobs in 2007? How many will hold service jobs in 2014 if the percentage increases to 64%? Use employment information from the lesson to make the calculations.
5. **Visual Arts** Select a product that involves all of the types of businesses in its production and marketing. Draw an illustration that shows each business and its role in the successful production and sale of the product. Title your illustration and label the component parts.

5-2

Forms of Business Ownership



Goals

Understand the three major forms of business ownership.

Determine when each form of business ownership is most appropriate.

Recognize other specialized business ownership forms.

Key Terms

proprietorship

partnership

corporation

partnership agreement

articles of incorporation

franchise

Focus on Real Life

Jaden looked through the daily stock market update in the evening newspaper. He was searching for the listing of the stock he owned—GMS. His grandparents had given him five shares of stock in General Motors Corporation when he was born. He didn't get interested in it until recently when he learned more about the stock market. Now he knew he was an owner of the auto company. The success of the company determined the value of his ownership. While the stock price had gone up and down, it was now at its highest point since he began following the stock price.

While Jaden couldn't make day-to-day decisions as a stockholder, he liked to think what it would be like to be the top executive of GM. He knew that if he was responsible for major decisions about the company's products and operations, thousands of stockholders would be watching to see how those decisions affected the value of their stock.

main idea

Understand the three major forms of business ownership.



BUSINESS OWNERSHIP

Many people think they would like to own a business. The chance to be in control, make decisions, and invest money to make a profit is challenging and exciting. Thousands of people are business owners. The amount of control they have, how decisions are made, the sources of money for the business, and control over profits is not the same for every business owner. The form of ownership affects each of those aspects of the business.

There are three major forms of business ownership—proprietorship, partnership, and corporation. There are also several other specialized forms of ownership.

Proprietorship

A **proprietorship** is a business owned and run by just one person. It is the easiest form of business to start and end. There are very few legal requirements regarding

the business ownership or capital needs that must be met.



What are the advantages and disadvantages of owning your own business?

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Forms of Ownership Among U.S. Businesses				
FORM OF OWNERSHIP	NUMBER OF BUSINESSES (2000)	TOTAL REVENUE (THOUSANDS)	PERCENT OF ALL BUSINESSES	PERCENT OF TOTAL REVENUE
Proprietorship	18,925,517	\$1,029,691,760	72%	5%
Corporation	5,266,607	19,749,426,052	20%	85%
Partnership	2,242,169	2,582,060,669	8%	11%

Source: Internal Revenue Service

FIGURE 5-2

Why are there so many proprietorships?

Many individuals like the proprietorship form of ownership. It gives them sole control over all business decisions. The owner receives all profits made by the business. He or she can determine how those profits are used. The owner is also responsible for all debts of the business. If the business fails, the owner has almost no shelter from creditors. Any money and other assets owned by the proprietor, whether used in the business or not, can be claimed by creditors to pay the business debts.

Partnership

A **partnership** is a business owned and controlled by two or more people who have entered into an agreement. A partnership is very similar to the proprietorship in several ways. It is quite easy to start. The owners are both responsible for key business decisions and functions. The partners share both investments and profits based on the terms of the partnership agreement. Each partner is liable for all of the debts of the business should it fail.

Corporation

A **corporation** is a separate legal entity formed by documents filed with a state. It is owned by one or more shareholders and managed by a board of directors. Most corporations have several owners who invest in the business by purchasing shares of stock. Corporations are more

difficult to form than either proprietorships or partnerships. They must also meet more legal requirements. Not all owners have direct involvement in decision-making about business functions. They will not have access to profits unless the board of directors approves it. Corporations protect the liability of stockholders to only the amount of money they have invested.

Most U.S. businesses are organized as proprietorships. However, as shown in Figure 5-2, proprietorships have a very small percentage of business revenues.

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What are the differences between the three main forms of business ownership?

CHOOSING A FORM OF BUSINESS OWNERSHIP

When a new business is started, the owner should carefully consider the form of ownership. While it is possible to change the form of ownership for an existing business, it is best to decide which form to use both for the long-term future of the business as well as for its first few years.

Choosing a Proprietorship

Most businesses begin as a proprietorship. They remain in that form for the life of the owner. Often people choose to start a

main idea

Determine when each form of business ownership is most appropriate.

Work as a Team

Compare the unique interests and skills of each member of your team. Identify possible businesses that could be formed as a partnership by combining the talents of two or more team members.



business because they prefer the freedom of working for themselves rather than for another person. They want to be in total control of the business. Many new business owners have limited knowledge of the forms of ownership and want to begin the business as easily as possible. Some people form a business from a hobby or operate a business on a part-time basis. They may expand the business over a few years and spend little time thinking about other ways the business could be organized.

Starting a proprietorship is easy. You just have to begin buying and selling as a business. You don't even need a business name. You do need to obtain any required government licenses and permits. You will need to account for income and expenses and pay taxes on the profits of the business. If operating the business for several years will be your primary job, it is best to choose a name for the business. You will need to register the name with local, state, and federal governments.

A proprietorship provides a tax advantage for the owner. All income is taxed as a part of your personal income. Many business expenses can be used to reduce the income. That benefit also carries the most significant disadvantage of a proprietorship. In the eyes of the law, the owner is the same as the business. Any debts of the business are the responsibility of the owner. Personal assets not connected to the business will need to be used to pay business debts if the business assets are not adequate to cover those debts. In that way, a failed business may result in the owner losing almost everything.

For people who want total independence, do not want to be exposed to significant government regulation, want to be in control of all business decisions, and are willing to take on the entire risk of a business, the proprietorship offers an effective form of ownership. For a person who wants to expand the business, is willing to share control and decision-making in return for additional resources and reduced risk, and wants some protection for money invested, other forms of ownership are better.

Choosing a Partnership

A partnership is a bit more complex and formal than a proprietorship.

In many states, a partnership can be formed by the verbal agreement of two or more people. It is usually better to have a written partnership agreement.

The **partnership agreement** is a written agreement among all owners. It details the rules and procedures that guide ownership and operations. It typically



How might a partnership be more advantageous than a proprietorship?

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identifies the business name, the investments, and other contributions of each partner. The agreement shows how profits and losses will be divided among the partners. It defines the authority and responsibilities granted to each person and how the partnership can be dissolved. Most states require that partnerships register a business name as well as the name of each person in the partnership.

The advantage of a partnership is that two or more people can contribute to the investment needed to start the business as well as the expertise required to run a business. At the same time, each partner is responsible for decisions made by all other partners. There is no protection for the personal assets of any partner. If the business fails, each person can lose much more than the amount of the original investment. If a partner chooses to leave the partnership or dies, the partnership normally must be dissolved.

A partnership is a good ownership form for people who share an idea for a business. They want to cooperate in managing and investing in the business. It is the easiest form for people who work well together and want to share the risks and rewards of the business. It has the same liability of a proprietorship and presents problems if other people want to join the partnership or if it needs to be dissolved.

Choosing a Corporation

Most people think of corporations as very large businesses. It is the most popular form of ownership for large businesses. It is becoming increasingly popular for new and small businesses as well. Corporations are subject to many more laws and are more difficult to form than either proprietorships or partnerships. They offer a number of advantages to the owners as well.

FYI

Proprietors must pay self-employment taxes in addition to their income tax. Self-employment taxes are contributions to Medicare and Social Security. People employed by another business have those payments deducted from their paychecks, and employers contribute half of the required payments.

Corporations are treated as an “individual” by governments. They must follow the laws of the state in which they are organized. To form a corporation, you must file articles of incorporation with the appropriate state government office. The **articles of incorporation** is a written legal document that defines ownership and operating procedures and conditions for the business. Each state has specific information that must be included. States usually provide a form that can be filled out. The business must create *corporate bylaws* that are the operating procedures for the corporation. It must name a *board of directors*, the people who will make the major policy and financial decisions for the business. The corporation also issues shares of stock to the investors and details how more investments can be made.

Even though a corporation is more difficult to form and is subject to more government rules, it offers several advantages to owners. The liability of any owner is limited to the amount of money invested. The amount of debt of the business does not matter. People can invest in the business and receive some of the profit without having to take part in the day-to-day management and operations. The business can be easily expanded and ownership can be changed by the sale of stock.

Disadvantages of corporate ownership are that decision-making is shared among managers, the board of directors, and shareholders. Many more records

are required and more laws regulate operations than for other forms of ownership. Because corporations are treated as individuals by governments, they must pay corporate taxes on profits earned. Then the investors also pay taxes on their individual earnings from the business.

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Which form of business ownership is the most complex and difficult to form?

main idea

Recognize other specialized business ownership forms.

OTHER FORMS OF OWNERSHIP

Most businesses are organized as one of the three common forms just discussed. There are other choices of ownership. Some are specialized forms of partnerships and corporations. Others are totally unique forms.

Specialized Partnerships and Corporations

In a general partnership, all partners take part in ownership and operation of the business. A *limited liability partnership* identifies some investors who cannot lose more than the amount of their investment, but they are not allowed to participate in the day-to-day management of the business. This type of partnership is difficult and costly to set up. A *joint venture* is a unique business organized by two or more other businesses to operate for a limited time and for a specific project. It is a type of partnership.

A corporate form that is favored by many small businesses is the

S-corporation. An *S-corporation* offers the limited liability of a corporation. All income is passed through to the owners based on their investment and is taxed on their individual tax returns. A newer ownership form is the limited liability company (LLC). It combines the best features of a partnership and a corporation. A *limited liability company* provides liability protection for owners. It has a simpler set of organizing and operating requirements than a corporation. No articles of incorporation or bylaws are needed. A simple document much like a partnership agreement must be developed.

A *nonprofit corporation* is a group of people who join to do some activity that benefits the public. They work in areas such as education, health care, charity, or the arts. Nonprofit corporations are free from corporate income taxes. They can raise funds by receiving grants and donations from individuals and businesses. As with other corporations, they must organize as a corporation. The government must approve their purpose and operations.

Cooperatives and Franchises

Sometimes a group of people forms a cooperative to provide goods and services



What forms of corporate business ownership exist in your community?

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that they all need. A *cooperative* is owned by members, serves their needs, and is managed in their interest. Members form a consumer cooperative so that they can purchase goods and services cheaper as a group than they could individually. A business cooperative forms to market the products produced by members or to purchase products needed by the members. Large numbers of small businesses will have greater bargaining power than the individual businesses.

A **franchise** is a written contract granting permission to operate a business to sell products and services in a set way. The company that owns the product or service and grants the rights to another business is known as the *franchiser*. The company purchasing the rights to run the business is the *franchisee*. A franchise

is a way to expand a business using the investments of others while maintaining control over the name, product quality, and operating procedures.

The franchisee maintains day-to-day operations and receives the profits of the business. It pays a fee and percentage of the profits to the franchiser in return for operating assistance. Some popular and successful franchises include Jiffy Lube, Century 21 real estate offices, Mail Boxes Etc., Wild Birds Unlimited, Merry Maids, CD Warehouse, MAACO Collision Repair and Auto Painting, and New York NY Fresh Deli.

checkpoint >>

What are the other specialized forms of business ownership?

5-2

Assessment



Key Concepts

Determine the best answer.

1. The form of ownership that gives one person sole control over all business decisions is the
 - a. proprietorship
 - b. partnership
 - c. corporation
 - d. franchise
2. True or False. All investors in a general partnership have full liability for the debts of the business.
3. The people who make the major policy and financial decisions in a corporation are the
 - a. investors
 - b. board of directors
 - c. managers
 - d. owners
4. A special form of business organization that combines advantages of a corporation and a partnership is a
 - a. franchise
 - b. nonprofit corporation
 - c. cooperative
 - d. limited liability company

Make Academic Connections

5. **Communication** Two friends who want to open a store to sell the work of local artists ask you to explain the advantages and disadvantages of the three common forms of business ownership. Write a memo outlining the advantages and disadvantages. Include a list of questions that might help your friends make a decision.
6. **Research** Use the Internet to find information on a franchise opportunity related to a current career interest. Prepare a table that describes the franchise, the products or services, the investment requirements, and the benefits of becoming a franchisee.



Sharpen Your Life Skills

Understanding Stock Tables

Monday, October 23, 20xx			STOCK TABLE EXAMPLE					
52 WK HI-LO	SYM	DIV	VOL	YLD	PE	HI-LO	CLOSE	NET CHG
28–13	LZD	1.1	228	4.58	10.53	25–23.5	24	0.5

People who own stock in a publicly traded company must be able to read a stock table. It provides information on the performance of the stock each day and over an extended period of time. By understanding stock tables, investors can determine how well the company is performing. They can decide whether to maintain their investment, buy additional stock, or sell and move their money to another investment.

Stock tables are available in most daily newspapers. They can also be accessed online. They report on the performance of publicly traded stocks on all of the major stock exchanges. Tables may be organized a bit differently, but will contain the same information shown in this example. On weekends, many newspapers report stock performance for the entire week.

52 WK HI-LO is the highest and lowest prices at which the stock was sold in the past year (52 weeks). In the example, the highest price was \$28 and the lowest was \$13.

SYM is the company symbol or abbreviation that identifies the firm issuing the stock. This symbol is sometimes referred to as the company's "ticker symbol." The fictitious symbol in the example is LZD.

DIV represents dividends, which are the amount of money approved by the board of directors of the company to be paid to stockholders. The column shows the most recent dividend paid per share—\$1.10. Dividends are a measure of the health of the business. They are one way that stockholders earn a return on their investment in addition to gains in the value of the stock.

VOL shows the volume of shares (in 100s) traded on the date of the table. In the example, 22,800 shares were traded by LZD. Volume gives information on the change in demand for the company's shares.

YLD approximates the yield of the dividend paid. The dividend yield is the current rate of return on all capital invested in the company. This allows easier comparison of

the performance of companies with different stock prices. The yield is calculated by dividing the current dividend by the closing stock price.

$$\frac{\text{Dividend}}{\text{Price}} = \frac{\$1.10}{\$24.00} = 4.58\% \text{ yield}$$

PE is the comparison of the price per share to the earnings per share. It is called the price/earnings ratio. It shows how much an investor is willing to pay for \$1 of current earnings by one share of stock. The ratio is calculated by dividing the price by the earnings per share (EPS). In the example, LZD stock is selling for more than 10 times the current earnings.

$$\frac{\text{Price}}{\text{Eps}} = \frac{\$24.00}{\$2.28} = 10.53 \text{ PE}$$

HI-LO represents the highest and lowest prices of all trades made during the date of the table. In the example, the high was at \$25.00 and the low was \$23.50.

CLOSE is the last price at which a trade was made during the trading day. In the example, \$24.00 is the close.

NET CHG is the difference between the closing price for the previous day and the current day. Because the net change listed is 0.5, the price of the stock on the previous day was \$23.50.

Think Critically

1. What information from the stock table do you think is most important for a stock owner to watch on a regular basis? What is the least important?
2. How do stock tables help in comparing the performance of two stocks with very different prices?

5-3

Organizational Structure for Businesses



Goals

Understand important principles in designing an effective organization.

Compare alternative organizational structures for businesses.

Key Terms

mission statement

goal

policies

procedures

organization chart

Focus on Real Life

Mary Jo's company has just approved a policy that allowed some employees to telecommute. This means employees can work from home and complete their work using a computer and other technology. Mary Jo is interested in the idea but isn't sure if she should apply.

She is afraid she might not be as motivated to complete her work every day if she doesn't have to go to the office and keep a regular schedule. She also is concerned that it may be much more difficult to communicate with coworkers and get feedback from her manager using the technology. Mary Jo also wonders if she will be viewed as a productive and valued employee if people don't see her at work every day.

DESIGNING AN EFFECTIVE BUSINESS ORGANIZATION

It is not easy to create a successful business. Many new businesses fail in the first few years. Few businesses maintain their success for the lifetime of the owner. Successful businesses need more than a good product or service. Skilled managers, well-prepared and motivated employees, adequate resources, and effective procedures add to business success. A business needs to be well organized to help people do their work properly. An effective business begins with a clear purpose and the application of key principles for organizing work.

Setting Direction

The direction for a business comes from its **mission statement**. A mission statement is a short, specific written statement of the reason a business exists and what it wants to achieve. The mission statement for Starbucks is to "Establish Starbucks as the premier purveyor of the finest

coffee in the world while maintaining our uncompromising principles while we grow." Starbucks uses six guiding principles to measure their progress: their work environment, diversity, high standard, satisfied customers, clean environment, and profits.

main idea

Understand important principles in designing an effective organization.



© Getty Images/PhotoDisc

How does effective organization help a business "hit the mark"?

FYI

In a recent Junior Achievement survey, 41 percent of teens believe starting and operating their own business will offer greater job security than being an employee in another company. Nearly 75 percent of the teens indicated they would like to start their own business someday.

After a mission statement is developed, the business sets goals. A **goal** is a precise statement of results the business expects to achieve. Goals are used to define what needs to be accomplished and to determine if the business is successful. An example of a goal for an automobile manufacturer is “to produce the top-rated brand for quality and customer satisfaction.”

Finally, the business sets policies and procedures for the organization. **Policies** are guidelines used in making consistent decisions. **Procedures** are descriptions of the way work is to be done. Effective policies and procedures provide guidance

and direction to people working in the organization.

Principles of Effective Organization

When several people work together, their work needs to be organized so they work together well and achieve their tasks. Several principles guide the effective organization of work.

Responsibility, Authority, and Accountability *Responsibility* is the obligation to complete specific work. *Authority* is the right to make decisions about how responsibilities should be accomplished. *Accountability* is taking responsibility for the results achieved. In an effective organization, all managers and employees have a set of responsibilities as a part of their jobs. With every job assignment, they know they have the authority to make the decisions and obtain the resources needed to complete the assignment. They know they will be recognized and rewarded if they are successful. They



In an organization, every member has a specific role to fill. Describe some roles.

will be held accountable if the work is not completed well.

Unity of Command A key organizing principle is to provide unity of command. *Unity of command* means there is a clear reporting relationship for all staff of a business. If there is confusion in assignments and unclear relationships among people who are working together, it will be hard for people to know what to do or where to go for help. For each work assignment, people need to know who is the leader and how decisions will be made.

Span of Control The last organizing principle is span of control. *Span of control* is the number of employees who are assigned to a particular work task and manager. A large number of people working with little support from their manager cannot be effective. In the same way, a manager with only a very small number of people may provide too much control. Organizations need to make sure that workers have a balance of supervision and freedom to do their work. The span of control for well trained, experienced, and

motivated employees can be much greater than for new and inexperienced employees who are not enthused about their work.

checkpoint >>

What is the difference between a mission statement and a goal?

TYPES OF ORGANIZATIONAL STRUCTURES

When only one person works in a business, there is little need for an organizational structure. The sole employee is responsible for all of the work. When more people are hired, there will need to be an agreement on what work each person will do and if one person has authority over the work of others. An **organization chart** is a diagram that shows the structure of an organization, classifications of work and jobs, and the relationships among those classifications. You can see a simple organization chart for a business in Figure 5-3.

main idea

Compare alternative organizational structures for businesses.

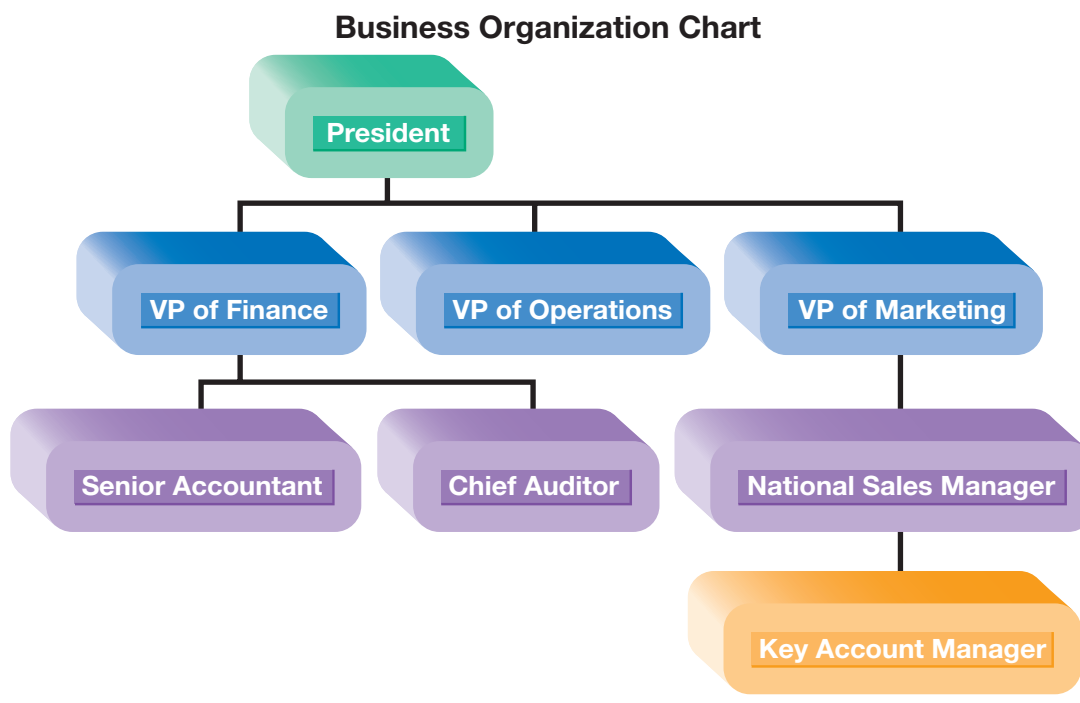


FIGURE 5-3

Why is it important for employees to understand the structure of the company where they work?

Work as a Team

Your class is responsible for selling advertising for the school's yearbook. Work as a team to identify the tasks that will need to be completed to sell 50 ads in the next three weeks. Describe how a project team can be organized to achieve that goal.



Functional Organization Structure

Most businesses use a *functional organizational structure*. In this type of organization, work is arranged within main business functions such as production, operations, marketing, and human resources. All of the people with jobs related to one of the functions will work together. They report to managers who are responsible for that function. The advantage of a functional organization is that people work with others who have the same skills. A drawback is that people become more focused on their specific function than on the success of the whole business. Often, people working in one function have little

interaction with people in other parts of the business.

Matrix Organizational Structure

A newer organizational structure designed to overcome the drawbacks of the functional structure is the matrix organization. In a *matrix organizational structure*, work is structured around specific projects, products, or customer groups. People with varied backgrounds are assigned together because their expertise is required for the project or to serve the customer. The assignment may be temporary or long-term.

A matrix organization can be interesting and motivating to employees. They work with many different people. They are focused on a specific project or task. However, it can be confusing and inefficient without effective leadership and communication.

checkpoint >>

What problems can result from the use of a functional organizational structure?

5-3

Assessment

Xtra!
Study Tools

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Key Concepts

Determine the best answer.

1. True or False. The direction for a business comes from its policies and procedures.
2. The obligation to complete specific work is
 - a. responsibility
 - b. authority
 - c. accountability
 - d. recognition
3. Which of the following is *not* shown on an organizational chart?
 - a. the structure of an organization
 - b. work relationships
 - c. job descriptions
 - d. classifications of jobs

Make Academic Connections

4. **Technology** Use the Internet to collect examples of the mission statements of five businesses. Rate each mission statement in terms of how effectively it communicates the purpose and direction of the company.
5. **Critical Thinking** Many schools are organized using a functional organizational structure. Teachers are organized into departments such as English, Mathematics, Science, and Business. How could a school be organized using a matrix structure? Design an organizational chart that illustrates a matrix structure for your school. Describe the advantages and disadvantages of the matrix structure.

Electricity Where There Was None

More than 30 percent of the world's population does not have electricity. Not only does that mean a very difficult day-to-day existence, but also no real chance to improve the standard of living with factories, modern stores, and technology. Fabio Rosa believes that for the same amount of money people spend on kerosene, candles, and batteries, he can rent them low-cost solar kits. Using the "free" energy of the sun, electricity can be delivered to rural areas, mountaintops, and villages in his home country of Brazil in South America. It can also be delivered to the many other places in the world with no access to power lines and generators.

When Mr. Rosa was 22, he was named Secretary of Agriculture in a city in rural southern Brazil. He saw hundreds of people leaving their farms and moving to the city. The lack of electricity made it hard to earn a living in agriculture. That put stress on city services and created the likelihood that there would be few farms in the future. Fabio thought that if low-cost solar energy could be supplied, it would result in higher levels of food production. At the same time, improved health and education services could be provided, pollution levels would be reduced, and people could come back to their farms. He envisioned small business communities springing up to serve the local farmers powering their stores with solar energy.

Based on his work, Mr. Rosa knew that farm families spent at least \$11 per month on kerosene, candles, and batteries. This was about the same amount that would be needed to rent a simple solar system that would provide enough electricity for one farm.

With that knowledge, he set out to electrify the rural areas of his country with solar energy kits.

Currently, the solar systems come in three standard sizes: Kit Number 1 rents for \$10 per month. It comes complete with a 60-watt solar panel, high-performance battery, all the wiring, plus a number of 12-volt fluorescent lights and electrical outlets for appliances. The system provides, on average per day, six to seven hours of light and several hours for running appliances, equipment, and a water pump. Kits 2 and 3 rent for, respectively, \$16 and \$24 per month and come with more lights, outlets, and wattage. The installation cost for a kit—about \$150—can be paid off over the first 12 months. When Rosa distributes the solar systems to farmers, he includes materials to develop an irrigation system and build electric fences to protect farm animals as well as information on modern farming practices. New tools and equipment are being developed that can be powered with the solar system including saws, drills, refrigerators, and even a

solar water heater to provide warm showers.

Fabio Rosa is currently installing about 1,500 new solar systems each year. He wants to increase the rate at which poor families can obtain electricity, so he is traveling worldwide to seek investors who will provide money to expand his work. "At this moment," he states, "we have millions of people without energy, just like we did 10 years ago, just like we did 20 years ago. Brazil has this problem. India has this problem. China has this problem. Bangladesh has this problem. Two billion people have this problem. First, we will demonstrate results on a small scale, then on a regional scale, then all over Brazil, and then the world."

Think Critically

1. Use the Internet to locate additional information on Fabio Rosa's work.
2. Suggest ways the standard of living of poor families and communities will improve when they have access to electricity.



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CHAPTER 5 Assessment

Xtra! Quiz Prep

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Business Notes

5-1 BUSINESS IN THE U.S. ECONOMY

1. The employment status of the United States is changing. New jobs develop as older jobs disappear. The labor pool is currently getting older, but that will begin to change as baby boomers retire. Minority groups make up a larger percentage of the workforce.
2. Businesses play several key roles in the U.S. economy. They provide employment for millions of people. They compensate owners and investors. They pay taxes to federal, state, and local governments. They make and distribute products and services needed by consumers, government, and businesses.
3. The three major categories of businesses are producers, intermediaries, and service businesses. Producers create the products and services used by individuals and other businesses. Intermediaries sell goods and services. A service business carries out activities that are consumed by its customers.

5-2 FORMS OF BUSINESS OWNERSHIP

4. Most businesses are organized as proprietorships, partnerships, and corporations. A proprietorship is a business owned and run by one person. A partnership is a business owned and controlled by two or more people. A corporation is a separate legal entity owned by one or more shareholders and managed by a board of directors.

5. For people who want to work and make decisions independently, do not want to be exposed to significant regulation, and are willing to take on the risk of a business, the proprietorship is an effective form of ownership. A partnership is good for people who share an idea for a business, want to cooperate in managing and investing, and want to share the risks and rewards of the business. A corporation is more difficult to form and is subject to more regulations. Investors' liability is limited to the amount invested, and they can invest without taking part in the day-to-day management.
6. Other forms of ownership include limited liability partnership, joint venture, S-corporation, limited liability company, nonprofit corporation, cooperative, and franchise.

5-3 ORGANIZATIONAL STRUCTURE FOR BUSINESSES

7. Successful businesses have an effective organizational structure. A mission statement, goals, policies, and procedures guide them.
8. The specific structure of a business can be illustrated with an organizational chart. Traditionally, businesses have used a functional structure but now many are using a matrix organizational structure.

Communicate Business Concepts

1. What are some rapidly growing employment opportunities? What types of jobs are declining in numbers? How can you predict what job categories may grow or decline in the future?
2. Why do most businesses have no employees other than the owner? Do you believe most of those business owners earn their entire income from that business? Why or why not?
3. Identify several businesses from your community that fit within each of the three categories of businesses listed in Lesson 5-1. Do you believe your

community has more producers, intermediaries, or service businesses? Justify your answer.

4. Would you like to start and own your own business? Why or why not? What do you believe are the risks and benefits you would face if you decided to start a business?
5. Julie states that she wants to be her own boss. If she starts a business, it will be a proprietorship rather than a partnership or corporation. Explain to Julie why she might want to consider another ownership form. Is it possible for her to be her

own boss and yet not use the proprietorship form of ownership?

6. Use a business directory to identify several non-profit corporations in your area. What public service is each providing? Why do you think each is a public rather than a private corporation?
7. "An effective organizational structure is as important to a business as the quality of its products and services." Do you agree or disagree with that statement? Discuss your beliefs with another student who has the opposing view.
8. You are starting a shopping service for elderly people in your community who cannot leave their homes. Write a mission statement that clearly communicates the purpose of your business.
9. How will the appearance of an organizational chart for a business using a functional organizational structure be different from one using a matrix organizational structure? What should you be able to learn about a business by studying its organizational chart?

Develop Your Business Language

Match the terms listed with the definitions.

10. A business owned and controlled by two or more people who have entered into a written agreement.
11. A short, specific written statement of the reason a business exists and what it wants to accomplish.
12. One who has no explicit or implicit contract for long-term employment.
13. Descriptions of the way work is to be done.
14. A specific statement of results the business expects to achieve.
15. A written legal document that identifies ownership and operating procedures and conditions for the business.
16. Businesses involved in selling the goods and services of producers to consumers and other businesses.
17. A separate legal entity, formed by documents filed with the state, which is owned by one or more shareholders and managed by a board of directors.
18. A written contract granting permission to operate a business to sell products and services in a prescribed way.
19. Businesses that complete activities that are consumed by customers rather than offering products for sale.
20. A business owned and controlled by just one person.
21. A written agreement among all owners that specifies the rules and procedures that guide ownership and operations.
22. Guidelines used in making consistent decisions.
23. A diagram that shows the structure of an organization, classifications of jobs, and the relationships among those classifications.

KEY TERMS

- a. articles of incorporation
- b. contingent worker
- c. corporation
- d. franchise
- e. goal
- f. intermediaries
- g. mission statement
- h. organization chart
- i. partnership
- j. partnership agreement
- k. proprietorship
- l. policies
- m. procedures
- n. service business

Make Academic Connections

24. **MATH** To provide additional employment and add to its tax base from businesses, Yorketowne's city council opened a business park on the edge of the city. After five years, they had attracted two new manufacturers and four supporting service businesses to the park. The total value of the property of all six businesses was \$15,825,500. The companies paid \$0.78 per \$1,000 of property value each year as property tax. In addition, the businesses employed 328 people at an average salary of \$36,000. Each person paid a 1 percent city income tax each year.
- What is the total amount of taxes the city collected as a result of opening the business park?
 - In addition to the tax dollars, what other benefits might the city receive from opening the business park?
25. **TECHNOLOGY** Use a spreadsheet and graphics program to make a chart or graph showing one of the following sets of data: (a) the five largest employers in the world and the number of employees for each, (b) the composition of the U.S. workforce by the age of employees, (c) the average size of U.S. business by annual sales revenues.
26. **COMMUNICATION** The DECA chapter in your school is planning to open a school store to sell school supplies, school-related apparel, and spirit items before and after school. Prepare a mission statement for the store. Write one goal that identifies a specific result the store should achieve. Write a policy statement for accepting returns of merchandise purchased by customers.
27. **SCIENCE** Identify five types of natural resources that are extracted in the United States for use in manufacturing. For each, identify the leading states where the natural resources are extracted and important products for which the natural resource is needed.
28. **PUBLIC SERVICE** Most communities have non-profit corporations that support education. Find out if one or more organizations is working to support your school. If so, contact a leader of the organization. Determine how the organization is structured, if it has articles of incorporation and bylaws, and its purpose. Find out how students in your school can support the organization through volunteer activities.

Linking School and Community

Interview a stockbroker or financial advisor in your community about the process of selecting and purchasing stock. Ask the professional to share information about how people decide which stock to purchase and how a

stockholder can track the stock's performance. Ask the broker or advisor if he or she has any general advice for young investors.

Web Workout

The U.S. government provides support to small businesses through the Small Business Administration (SBA). Visit the SBA web site to learn more about this resource. Browse or search for information about forms of ownership that small businesses might consider. Be sure to read the advantages and disadvantages of each form or ownership.

Think Critically

- Use information from your textbook and the SBA web site to identify and make a list of factors that influence the form of ownership choice.
- Provide an example of business that might benefit from choosing the proprietorship form of ownership. Provide an example for each of these other types of ownership: partnership and corporation.
- Based on one of your examples from above, write a short scenario describing the advantages and disadvantages of the chosen form of ownership. Describe how the business plans to use the form of ownership to its advantage and how it plans to deal with the disadvantages.

Decision-Making Strategies

Sonja Bartholomew started a lawn mowing service. She could not charge as much as she needed to make the profit she desired. Her competitors only charged \$15 per lawn while she charged \$20, but she did a superior job cutting lawns. Still, potential customers did not want to pay the extra \$5.

A friend, Eduardo Guadalupe, suggested that they work together. He was good at trimming shrubs and had ideas for improving landscapes with flowers and lawn ornaments. They would offer a unique service when they combined their businesses. They could charge an amount that would result in a good profit for both of

them. They would seek out homes in neighborhoods with above-average income levels.

29. What will be special about the services that Sonja and Eduardo can offer together? What other services might they include?
30. Why would they target above-average income levels?
31. Should Sonja continue to run her business as a proprietorship and hire Eduardo as an employee? If not, what other form of business ownership would you recommend? Justify your choice.

Prepared Speech Event

Small businesses hire the greatest number of employees in the United States. Entrepreneurship and small business ownership have made the United States great.

You have decided to run for Congress. One of the hottest topics in your congressional district is support for small business ownership. Your constituents want to know your plan to stimulate and support small business ownership. You must come up with a specific plan to encourage more minority and female business ownership. You are also challenged to develop a strategy to bring business back to the inner city. Entrepreneurs want to know the incentives for taking the risk of starting businesses in your congressional district.

You will have three to five minutes to present your plan to strengthen and encourage small business ownership. Audiovisual equipment and visual aids may be used in this presentation.

PERFORMANCE INDICATORS EVALUATED

- Define demographics of your congressional district.
- Explain the importance of small business ownership.
- Describe strategies to encourage/support increased small business ownership.

- Outline the greatest obstacles for small businesses to overcome.
- Explain how government assistance to small businesses will be monitored and improved.

You will be evaluated for your

- Knowledge of the topic
- Organized presentation of the topic
- Confidence, quality of voice, and eye contact
- Relationship of the topic to business strategy

For more detailed information about performance indicators, go to the BPA web site.

Think Critically

1. Why is small business ownership important in the United States?
2. What types of government programs or assistance will encourage more small business ownership?
3. Why is it important to meet with community and congressional district leaders to develop a strategy that enhances small business ownership?

<http://www.bpanet.org/>



Portfolio Activity

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Access the web site shown here to find portfolio activities for this chapter. Use the activities to provide tangible evidence of your learning.